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ABSTRACT

This self-instructional module on estimating your business potential is the second in a set of twelve modules designed for small business owner-managers. Competency objectives for this module are (1) identify potential customers who are most likely to purchase your goods and services and (2) estimate the volume of goods and services you can expect to sell. Provided are information sections on factors to be considered in estimating business potential (economic conditions, customer characteristics, and competition), sources of assistance in making estimates, two learning activities (checklists to estimate business potential and questions to be answered about current and potential customer population), one pamphlet from the Small Business Administration, "Pleasing Your Boss, The Customer," (which considers why customers buy, where they buy, and when they buy), and a script from a cassette tape designed for use with this module. (The final report of this project is available as CE 017 858.) (JH)

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PURPOSE

The purpose of this module is to help you assess your business potential by identifying those customers who are most likely to purchase products and services from your firm. This information is needed because the type of customer you serve determines, to a large extent, the amount and type of merchandise you offer for sale.

COMPETENCIES

Upon completion of this module you will be able to:

1. Identify potential customers who are most likely to purchase your goods and services.

2. Estimate the volume of goods and services you can expect to sell.

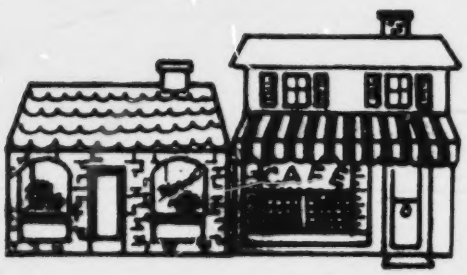
INSTRUCTIONS

Before reading the material which begins on page 2, listen to the cassette entitled "Estimating Your Business Potential."

WHY SPEND TIME ESTIMATING YOUR BUSINESS POTENTIAL?

Prior to opening your business you no doubt estimated the sales potential for your type of firm. Now that you are actually operating the business, it may be worthwhile to again estimate your business potential. Here are some reasons why. If your volume of business is less than earlier predicted, this study will help explain why you are missing the mark. If your firm is more successful than earlier predicted, and you are thinking about expansion, this study will help you make decisions more accurately.

WHAT FACTORS DO I NEED TO CONSIDER IN ESTIMATING MY BUSINESS POTENTIAL?



The area in which you have chosen to do business is composed of certain social and economic characteristics which will influence your business operation. A study of these characteristics will indicate (1) how many potential customers there may be for your type of business operation, and (2) the approximate number that can be expected to become your customers. Because these characteristics frequently change (it has been estimated that business firms lose 25% of their customers each year) you should survey your trade area periodically to detect any changing conditions so that you can make necessary business adjustments. This examination should focus on three general areas:

ECONOMIC CONDITIONS:

* Consider employment trends in your community which might influence your business. For example, has there been an upswing in hiring by local firms?

* Estimate the purchasing power in your trade area. It may be helpful to obtain income information from the U.S. Census reports. Your local Chamber of Commerce can help you obtain this information.

* What is the "buying mood" of people living in your trade area? The inclination to spend money on your products or services may, of course, change from one period to another.

CUSTOMER CHARACTERISTICS:

* Where do your customers live? How far will people travel to visit your business?

* What is the age distribution of your current customers? The wants and needs of customers will sometimes vary according to age.

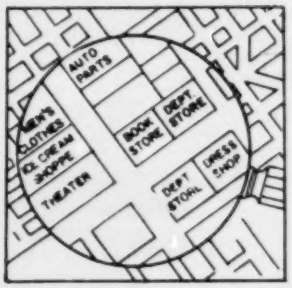
* What is the educational background of your customers? Shopping attitudes may vary according to level of education.

* Do the majority of your customers come from any particular occupational area? Income level, of course, will vary among the different occupations.

* Is your trade area getting larger or smaller? When you examine population trends, consider not only the number of people in your trade area, but the characteristics of these people. A population may remain stable in terms of number, but change dramatically in terms of age, education, or ethnic representation.

Note: As you answer the above questions, consider both current and potential customers.

COMPETITION:



* Who is your strongest competiton? Don't overlook business firms in nearby communities. Mail order firms, and other businesses may compete with you. Where is this competition located?

* What is the merchandise quality and assortment offered by your competition?

* Where do you stand in terms of price competition? Don't hesitate to shop your competition to determine the price of merchandise and services offered.

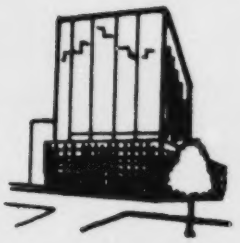
* How do you compare with competition in terms of services? Check such areas as credit, lay away plans, and special order options.

WHERE CAN I GET HELP IN ESTIMATING MY BUSINESS POTENTIAL?

You can obtain assistance from the following sources:

1. Bank Loan Officers
2. Chamber of Commerce

3. Trade Associations
4. Distributive Education Services
5. Small Business Administration
6. Bureau of Census
7. Department of Commerce
8. Media Representatives (Newspaper, radio, etc.)
9. Owners or managers of similar businesses in other communities.



YOU CAN'T BE ALL THINGS TO ALL PEOPLE

The area in which you are doing business is probably composed of a variety of economic, customer, and competitive characteristics. Attempting to satisfy the needs and wants of all people in this area would be unprofitable. Instead, focus your efforts on a group of people who possess similar characteristics and try to determine?

1. What products and services they want and need.
2. Where they now purchase these products and services.
3. When they buy these products or services.
   a. Weekly (What day?)
   b. Monthly (What time of the month?)
4. How they buy these products or services?
   a. Do they compare prices?
   b. Do they prefer credit or cash payment plans?
5. Reasons why they buy these products or services?
   a. To save money?
   b. To gain status?
   c. To improve health?
   d. To save time and effort?

NOTE: Please turn to page 5 and complete learning activity number one.

LEARNING ACTIVITY NUMBER ONE

To obtain a better picture of your business potential, answer each of the questions listed below.

1. Is there a trend in unemployment in your area? (check one)

   _____increasing
   _____decreasing
   _____stable

2. How do you view the size of your trade area? (check one)

   _____neighborhood
   _____local community
   _____regional

3. What share of the potential market do you currently command?

   _____% (You many only be able to provide a close estimate.)

4. Where do your customers live?

   Within 1 mile_____ Percent_____
   Within 2 miles_____ Percent_____
   Within 3 miles_____ Percent_____
   Within 4 miles_____ Percent_____
   More than
   5 miles_____ Percent_____

5. What is the typical age of your customers?

   Sub-teens_____ Percent_____
   Teenagers_____ Percent_____
   20 - 34 _____ Percent_____
   35 - 49 _____ Percent_____
   50 - 64 _____ Percent_____
   65-over _____ Percent_____

6. In what types of occupations are your customers employed?

   Blue Collar _____ Percent_____
   White Collar_____ Percent_____
   Professional_____ Percent_____

7. Is there a population trend in your area?

   _____stable
   _____increasing
   _____decreasing

LEARNING ACTIVITY NUMBER ONE--Continued

8. What level of product or service quality do your customers prefer?

_____highest quality
_____above average quality
_____average quality

9. What firm(s) provide the greatest amount of competition for the sale of your products and services?

_____

_____

10. What major advantages do competing firms offer to potential customers?

_____

_____

11. When do potential customers normally purchase the products and services you sell?

_____Daily
_____Weekly _____What day of the week?
_____Monthly _____What time during the month?
_____Yearly _____What part of the year?

12. What payment options do your customers prefer?

_____Credit
_____Cash

If credit, what type is preferred.
_____Bank credit card
_____National Credit Card
_____Store Credit Card

The information gathered in this study should provide you with a picture of your business potential. The products and services you offer should meet the needs and wants of the customers you've identified in this study.

Note: Please turn to page 7 and complete learning activity number two.

LEARNING ACTIVITY NUMBER TWO

It is sometimes helpful to prepare a brief, written description of your current and potential customer population. Please provide the information requested below:

1. Describe in some detail the customers you are now serving. Use information such as age, income level, occupation, etc., to develop a picture of your "typical" customer.

2. Using a map of your community, pinpoint the home address of each customer who purchases products and services from you. The addresses may be obtained from personal checks or sales receipts. You may wish to place a pin at the exact location of each customer. This procedure will give you a visual picture of where your customers live.

3. Is there another group of customers you would like to attract? If so, try to describe this population in the space below.

4. If your answer to question number three was "Yes" then describe the steps you must take to attract this group. You should also estimate the additional expense necessary to reach this population.

NOTE: Please turn to page 8 and review the preferred reading list.

PREFERRED READING LIST

This instructional module is designed to introduce key concepts regarding ways to estimate your business potential. For a more in-depth examination of this topic area, study the following preferred reading.

SMALL BUSINESS ADMINISTRATION SMALL MARKETERS AIDS

#114 "Pleasing Your Boss, the Customer"

NOTE: You have now completed the module requirements. You may wish to review this module or advance to another module.

BUSINESS POTENTIAL

INTRODUCTION:

Prior to opening their business, successful owner-managers carefully estimated their business potential. They knew that certain social and economic characteristics would have a bearing on their sales volume. But what are these social and economic characteristics that influence business operations? Let's listen to Sue Perez, a prospective small business owner, as she discusses her decision to enter business with her husband, Bob Perez, and Don Jennings, a bank loan officer.

Sue: I had a very interesting talk with Frank Walker yesterday and I'm really determined to open the yarn shop.

Bob: I hope you've given this idea serious consideration. Whatever you do, don't jump into something you can't handle.

Sue: I have given it serious thought. Frank also told me that the Small Business Administration conducts workshops periodically for prospective small business owners. I talked with Don Jennings at the Bank and he thought it would be a good idea to attend the workshop. He called the Small Business Administraction office in Richmond and they told him a workshop was scheduled for next Tuesday. I've already made arrangements to attend.

Bob: I think that's probably a good idea. I'm sure you'll be able to get a lot of your questions answered.

Sue: I hope so. You know, Frank brought to my attention many things I never really considered before. But I guess that's good. At least it got me thinking.

(LATER)

Sue: Bob, I'm really glad I attended that Small Business Administration workshop. I picked up some valuable information which, coupled with Frank's advice, will certainly help me. Bob, I'm very anxious to go into business.

Bob: Where do you go from here?

Sue: I have tons of things that need to be done. I guess first off I need to see Don Jennings at the bank. I need his advice, and he knows the community much better than I do. In fact, I think I'll call him right now.

Bob: Hold on a minute! You didn't answer my question. Gosh, it seems like you're trying to rush everything.

Sue: I'm sorry. I guess I'm just anxious to get things done. And there's so much to do. To answer your question, I've learned that I must first determine what sort of potential there may be for my business.

Bob: Well, there's not another yarn shop within 50 miles.

Sue: That's just the point! Even though I think Plainfield can support one, that may not necessarily be the case. Frank got me thinking about that. Why isn't there a yarn shop in Plainfield? Maybe Plainfield isn't large enough to support one.

Bob: You really did learn something, didn't you?

Sue: Yes, I guess it pays to talk with someone who's had years of business experience.

Bob: Just make sure you take your time and do things right!

Sue: I will. I'd better call Don at the bank.

(PHONE DIALING - RINGING)

Sue: Hello, this is Sue Perez. Is Don Jennings in? May I speak with him please? (PAUSE)

Don: Don Jennings speaking.

Sue: This is Sue Perez, Don. I wonder if I could set up an appointment with you. I'd like to talk with you further about my business venture.

Don: Okay - let's see, I'll be tied up all day tomorrow, how about Thursday at 10:30?

Sue: Fine, I'll see you then. Thanks. Goodby.

(THURSDAY)

Don: Well, Sue, your idea appears to be quite sound. I agree that you should determine what sort of potential exists for a yarn shop in Plainfield. You know most people would open a shop based on their intuition alone.

Sue: If I hadn't talked to Frank Walker and attended that SBA workshop, I probably would have done the same thing.

Don: Tell me Sue, do you know the community well?

Sue: I'm not sure what you mean.

Don: Well, do you know anything about the people - where they work - what sort of incomes they have - what their buying habits are, etc.

Sue: No, I don't. I was hoping you could help me with that sort of thing.

Don: We're not really equipped to conduct any type of survey for you, Sue. However, I think I can give you some idea of what you should consider and where you can obtain some help.

Sue: That's fine with me.

Don: Sue, there are 3 major areas that you must look at in trying to estimate your business potential. First, you have to consider your potential customers and their characteristics. For example, as I mentioned earlier, how many potential customers do you have? Of these potential customers, how many could become your customers? Where do they live? What sort of incomes do they have? Where do they work? What are their buying habits? Sue, these are just a few of the many customer characteristics you must consider.

Sue: And that's just the beginning?

Don: It's better you understand these now, than regret it later. The second area of concern is competition.

Who are your competitors? Where are they located? What type of customer do they serve? Do they carry a good assortment of merchandise? Is it high quality or low quality?

Sue: Wow? I guess I've really got the work cut out for me. I will need help--a whole lot of it.

Don: Surprisingly, Sue, you could gather all this information yourself if you wanted. We'll talk about that later. By the way, would you like a cup of coffee?

Sue: Yes, I could really use one. Thanks.

Don: The third area to be concerned with is, of course, the general economic status of Plainfield. Plainfield is pretty much like any other community in that it has both social and economic characteristics which are unique to this community. For example, with the college in town, much of the trade comes from the college crowd. On the other hand, there is a sizeable population that lives here year around. These characteristics, of course influence the operation of your business. Also, you probably remember what happened when the Meridian Company laid off all those people last fall.

Sue: Yes, a couple of neighbors on our street were laid off. You know my next door neighbor works at Shayne's Department Store and I guess their sales declined tremendously.

Don: Unfortunately, that situation was unforeseen. But that's one of the risks of going into business. And you have to determine if there appears to be a trend--are businesses laying off or are they leaving the community? Fortunately, Plainfield has experienced a

relatively stable economy in recent years. Stemming from this, I need to emphasize that you must periodically review your market area. Things change, Sue. People change--competition comes and goes. If you do it regularly, you can then make any necessary business adjustments.

Sue: That seems like a considerable undertaking.

Don: Yes, it will take time. But it is time well spent.

Sue: Don, thanks for the good suggestion.

Don: You are welcome. If everything works out, Sue, let us know if we can assist you financially.

Sue: Thank you. I will.

CONCLUSION:

Three general areas need to be examined when estimating your business potential. You should carefully recognize,

1. Economic conditions
2. Customer characteristics
3. Competition

Because these characteristics frequently change, you should survey your trade area periodically. To assist you in conducting your survey, utilize the assistance of the chambers of commerce, and other agencies.

Now let's turn to page 2 and learn more about how to estimate your business potential.

SMALL BUSINESS ADMINISTRATION

U. S. Government Agency

Small Marketers Aids

No. 114

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PLEASING YOUR BOSS, THE CUSTOMER

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SUMMARY

Successful retailers strive to please their boss, the customer. They realize that he is the boss because a wide choice of retail stores, money in his pocket, and easy transportation enable him to shop and buy as he wants.

This Aid is designed to help owner-managers of small stores to think about what is involved in pleasing the customer. Among other things, it discusses: why customers buy, where they buy, and when they buy. Also included is a list of questions which should be helpful in determining the kinds of people which the store serves.

An important factor in successful retailing is realizing that the customer is the real boss. He "makes" a store as he gives it his patronage. He contributes to its failure when he makes his purchase elsewhere.

As boss, the customer can be a hard taskmaster. Sometimes he may be ignorant, but you, the retailer cannot afford to ridicule or belittle him or his ideas. He may be arrogant, but you dare not express your true reaction to his arrogance. He may be demanding, but, to the best of your ability, you and your employees must attempt to meet his demands.

The fact that the customer is boss means that a small retail store succeeds or fails in direct relationship to how well the retailer understands the customer he serves and how well he adapts his sales floor and business procedures to fill the customer's needs. Goods will move rapidly only if you offer the customer what he wants--and in the way he wants to buy it.

An important reason for the customer being the boss is prosperity. Incomes have been increasing so that many people have become "affluent" customers. They have more money to spend, and they exercise a strong voice as to where they will spend it.

Although many factors determine where the customer buys, he is the one who makes the decision. For many years, he tended to do business near his home because transportation to other areas was complicated and slow. Today with money in his pocket, he delights in getting into his car and driving over a network of good streets and highways to try out new shopping areas.

No longer is the customer compelled to accept any one retailer's products and methods. Now he has a wide choice of retail outlets. So keep in mind that some very slight dissatisfaction with your store, or a slightly better approach by a competitor, can lead him into that competitor's store.

To succeed you have to please your boss, the customer. And this Aid is designed to help you think about what is involved in satisfying his increasing demands.

WHY DO CUSTOMERS BUY?

Customers buy because they would rather have products than the money with which they pay for them. In more detail, here are five reasons which should help you understand customers and how to deal with them:

(1) Customers buy because they need the product. Most items purchased in a hardware store, for example, are bought to fill an immediate need. Pots and pans are needed in every home. A do-it-yourselfer needs hammers and nails. A painter needs paint, brushes, and supplies. But even though a customer needs such things, he has a choice among several brands and styles of products. It is your job to show him how a specific kind of product, which you have in your store, will best fill these needs.

(2) Customers buy because they can use a product. They could easily get along without certain items because they do not really need them. Yet they often buy the items anyway. A large percentage of sales in hardware stores, for example, involve such items--they are desirable but not essential.

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Therefore, the successful hardwareman puts extra effort into promoting and selling items h as electric can openers and ice crushers. Customers buy them for the convenience and satisfaction they provide rather than because they are necessary. In addition to adding a convenience that most families enjoy, such products help put spice into living.

(3) Customers buy because the purchase will add to their wealth. For example, home owners buy materials and tools which they use to increase the value of their homes or to protect the investment which they have made in it. Seed for the lawn, and the awnings, and fences also add to property values. Moreover, some tools are purchased by customers to help them produce items which can be sold, or render services for which they will be paid.

(4) Customers buy to satisfy their pride of ownership. Many customers like to keep up with their neighbors. Thus they buy the latest items in order to build up their status with neighbors and friends, as well as for the greater living comfort which the products offer.

(5) Customers sometimes buy as a safety precaution. Home owners, for example, want safe homes so they buy items for precautionary purposes. Sometimes, they buy new step-ladders to replace rickety old ones. Sometimes they buy materials for building fences around backyards to protect their children.

WHERE DO CUSTOMERS BUY?

Although many factors influence customer's decisions on where they buy, the store's reputation is a big one. Customers place the "image" which a store creates high on their list because they like to be a part of success.

They want no part of failure. When a store reflects an image that is out of step with the times, most people don't like to be seen shopping there. When a store ignores the subtle psychological effect of the image it creates, the retailer pays for his disregard of customer behavior through lost sales and profits.

On the other hand, if you and your firm have a reputation for being in step with progress--offering up-to-the-minute merchandise in an exciting way--people will boast about buying from your store. This is the same kind of impulsive reasoning that makes some people pay hard cash for a label on a coat.

In examining where customers buy, put yourself in their shoes. Why do you buy suits, shoes, and groceries in certain stores? Have you changed your buying habits recently? Why? If you have remained loyal to one retailer for a long period, why have you done so?

By analyzing yourself and your own shopping habits you should learn a lot about your customer. He is probably very little different from you. Little things can quickly cause him to shift his patronage. It may be that the store is in an out-of-the-way location or it looks old and rundown. Or he may change because of poor salespeople who ignore him. Such seemingly "little" things are really not little if they increase or decrease your sales and profits.

WHEN DO CUSTOMERS BUY?

Some small retailers try to gear their operations to the leisurely pace of yesteryear. They like to determine the hours their stores will open and announce them to the customer. This practice is a mistake in the present competitive era.

The customer is not in a mood to be told when he must shop. To him, shopping in the evening has become a way of life. And in some areas, Sunday hours are pretty firmly established.

Many people--including retailers--might like to see a return to a more leisurely pace, but it is not likely to come. The fact is that except for legal restrictions--"blue laws"--the customer controls the hours in a successful store just as he controls everything else.

With this thought in mind, you may want to examine your opening and closing hours. If your store is in or near a large city, the chances are you should be opening later and closing later than if it is in a rural area.

WHAT TYPE OF CUSTOMER DO YOU SERVE?

In working to please customers, it is important to know the type of customer you serve. Although you can't divide your customers into absolute and inflexible groups, you can reach some general conclusions as to what kind of people they are, and such knowledge can help you decide on the best ways for pleasing them.

The following questions should be helpful in jotting down your conclusions about: (1) the kinds of people you are serving, or seeking to serve; (2) what they need, want, and will buy; and (3) how you can serve them best.

Talking with two types of customers can be helpful in working out answers to the questions listed below, especially to questions 1 through 6. One type is your best customers. The other is composed of persons whose income, business, social status, or location makes them logical customers even though they are not regular patrons of your firm.

1. When do my customers like to shop?
_____ a.m. to _____ p.m.

2. Do my customers like to shop during evening hours? If so, what nights of the week?
_____.
What hours? _____ a.m. to _____ p.m.

3. How do my customers like to pay?
_____ percent, cash
_____ percent, 30 days credit
_____ percent, revolving credit

4. What quality of merchandise do my customers usually buy?
_____ percent, top quality
_____ percent, moderate quality
_____ percent, low quality

5. What type of store has most appeal to my customers?
_____ percent, new and flashy
_____ percent, conventional, service type
_____ percent, discount type

6. How do my customers handle service on the mechanical products they have bought?
_____ do-it-themselves
_____ use service which is already available in the community
_____ use available service and would buy more if it were available

7. Who does most of the buying in the homes of my customers?
_____ percent, the man
_____ percent, the woman
_____ percent, they shop together

8. What is the income level of my average customer?
_____ above average
_____ average
_____ below average

9. What is the age level of my average customer?
_____ elderly
_____ middle aged
_____ young and recently married

10. What is the general attitude of my customer toward his community?
_____ proud and helping to develop
_____ settled and satisfied
_____ disturbed and moving out

11. How does my customer react to new and different merchandise or promotional activities?
_____ responds quickly
_____ responds slowly
_____ responds so slowly that I cannot afford to put great effort into it

12. What major changes has my customer made in the last 2 years?
_____ income increased steadily
_____ income declined
_____ changed shopping habits

You may also find it helpful to observe your competitors. For example, you can form an idea of how well your customers will respond to new merchandise and to promotions by watching how people respond to the promotional efforts of your competitors. If their well-planned promotions draw customers, then similar promotions of your own should attract customers to your store.

ADJUSTING TO THE CUSTOMER'S NEEDS

The customer is a changing boss because his needs and wants change. This fact means that successful retailers are constantly adjusting their methods. Although the customer's desires don't change quite as fast as the weather, you can be sure that his needs and demands do change and sometimes at unexpected times and in unforeseen directions.

Some retailers make the mistake of expecting the customer to adjust his shopping and buying habits to conform to their way of conducting a business. The reverse is true. The retailer has to adjust his business practices and policies to the customer's buying habits. No longer can the customer be told "Sorry, we don't conduct our business that way."

So many stores are willing to adjust to the customer's buying habits that he is not inclined to change his ways just to accommodate a certain retailer. Credit provides an example. If a customer wants to open a charge account, he does not feel that the retailer is doing him a favor. Usually, the customer looks at credit as a way of life and takes great pride in his credit rating. Any business policy that makes him feel that his credit is questioned is an immediate reason to take his business elsewhere.

The credit card, in fact, has done as much to change the business world as the light bulb has done to change home life. And the credit card habit is one that no retailer can change. Whether it be the expectation of credit or any other fixed buying habit of the customer, the retailer has to cater to it if he expects to succeed.

OFFERING MERCHANDISE WHICH CUSTOMERS WANT

In pleasing the customer, it is important to offer the kind of merchandise which he needs and wants. For example, a good hardware retailer does not offer tractors and farm equipment to people who live in apartment houses. Rather he offers household items and products that can be used in connection with hobbies.

You should check the basic customer needs in your area to make sure that they are what you have been thinking they were. Then try to fill these needs better than anyone else.

When selecting items to sell, bear in mind that products which have established customer acceptance through advertising usually move much better than products that are less well known or less favorably known. Customers who have in mind a specific advertised product often refuse to take something "just as good."

Offering products that are backed by recent national advertising also helps to build prestige for your store as an outlet for the latest in top quality items.

DISPLAYING GOODS ATTRACTIVELY

Such products must be displayed properly if customers are to buy. Displays should be attractive and placed so shoppers cannot help but see them.

Yet some retailers make the mistake of displaying merchandise in a haphazard manner. They maintain a store layout which suits them rather than the customer.

For example, these shortsighted merchants forget that aisle space is for customers. They cut down on aisle-size to get more merchandise into their stores. Sometimes they even use the aisles for temporary storage of merchandise. And all too often it stays there and becomes a permanent--but not an effective--display.

True, they do get more storage space per square foot. But too often the price these retailers pay for this achievement is a reduction of their customers-per-month figures. It does little good to have tons of merchandise if you do not have enough customers.

Keep in mind that aisle space is just as important as display space. Display space is where the merchandise is kept so the customer can see it and make a buying decision. Aisle space is necessary to get the customer to the displays and to give him room to stand while doing his looking. Either is worthless without the other.

You should remember also that the customer is demanding. He is likely to become more so. However, retailers, who look at the customer as the real boss of the business and offer him what he demands, discover that the customer rewards well those retailers who cater to what he needs and wants.

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